NCPA
NORTHERN CALIFORNIA POWER AGENCY

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Mr. Tom Carter
Operations Manager
Western Area Power Administration
Sierra Nevada Region
114 Parkshore Drive
Folsom, California 95630-4710

Dear Mr. Carter:

The Northern California Power Agency (NCPA) submits these comments in response to the Western Area Power Administration - Sierra Nevada Region Federal Register Notice dated June 12, 2003 (FR Doc. 03-1585) regarding post-2004 operating alternatives. Established in 1968, the Northern California Power Agency (NCPA) is a State of California Joint Action Agency with 18 members and associate members, most of whom currently receive power from Western. NCPA membership is open to municipalities, rural electric cooperatives, irrigation districts and other publicly owned entities interested in the purchase, aggregation, scheduling and management of electrical energy. For over three decades, NCPA has successfully provided scale and skill economies devoted to the purchase, generation, transmission, pooling and conservation of electrical energy and capacity for its members.

Of the three operational alternatives Western presented at the July 9 Customer Information Forum, NCPA supports the formation of a Federal Control Area (FCA). This alternative will continue to provide NCPA and the other Western customers with the reliability, durability and cost certainty that we have received since 1967. We appreciate the public procedures Western and Reclamation have used in the past to involve customers in operational matters and believe the FCA is the only alternative that can continue to provide that valued service in the future.

NCPA listened carefully to the four primary concerns the California Independent System Operator (CAISO) stated at the July 30, 2003 Public Comment Forum and believes those concerns are without substance. The four concerns listed by the CAISO are: 1) adverse implications to grid reliability and operations; 2) increased complexity of operating the California-Oregon Intertie; 3) increased costs to both Western's customers and California's consumers if the Western FCA is implemented; and 4) inconsistency of Western's proposal with existing Federal policy and proposed direction. Each of these issues seem to be a scare tactic by the CAISO and NCPA provides the following thoughts on each of those concerns.

1) Adverse implications to grid reliability and operations

As with all FCA's across the Nation, Western has demonstrated in the operation of its existing control areas that it will fully abide by all national (North American Electric Reliability Council) and regional (Western Electricity Coordinating Council) reliability criteria. All Western FCA's and sister entities under the Federal umbrella, including the Bonneville Power Administration and Tennessee Valley Authority, operate reliable control areas.

It is interesting that the CAISO would list grid reliability as a primary concern when many utilities raised this same issue when the CAISO was formed. This was a non-issue and will not be an issue with the formation of the FCA. The Sacramento Municipal Utility District formed a new control area approximately one year ago without any adverse implications to reliable operations. Western is not a participating transmission owner in the CAISO, yet has effectively coordinated its operations with the CAISO since its formation. Formation of an FCA does not change the coordination that already exists. We are confident that the FCA will continue to work closely with the CAISO to ensure reliability.

2) Increased complexity of operating the California-Oregon Intertie

The CAISO coordinates the Southern Intertie interface with several entities, including Mexico, Imperial Irrigation District, Los Angeles Department of Water and Power, Salt River Project, Arizona Power Service, and Western. Thus, their argument about complexity associated with coordinating the Northern Intertie with three control areas has no credibility. They raise a concern about different market rules depending upon what specific line is used on the intertie, but the different market rules exist today primarily because the CAISO has different rules from any other entity in the West. There are already operating rules that govern the operation of the intertie to accommodate these different marketing rules. If a change needs to be made to the operating rules, the operating entities get together to develop or amend the rule. The process is already in place. It is interesting that the CAISO is concerned about the complexity associated with the operation of the interties when they have significantly increased the complexity associated by their imposition of new market and settlement procedures.

The CAISO's market rules have increased the complexity of utility operations significantly. The CAISO's market based operations and constant changes, primarily the "10 minute market," have played a significant role in increasing the complexity. If Western and Reclamation join the CAISO, they will also have to abide by these new complex rules for the delivery of preference and project use power.

Western operates several control areas and has demonstrated an excellent record on all of its operations, including intertie operations. Western has demonstrated they will ensure a reliable and economic co-existence between all control areas.

3) Increased costs to both Western's customers and California's consumers if the Western FCA is implemented

The CAISO's argument on this issue is a rates item, not an argument regarding whether a control area should be established. Western has a separate process for rates. Regardless, the CAISO statement that an estimated $80 million to $100 million cost shift will occur to California consumers if the FCA is formed reverses the facts. The quoted $80 million to $100 million are CAISO costs today that are distributed to CAISO participants. Western does not have a Participating Transmission Owner agreement with the CAISO today and, thus, few of those costs are allocated to Western. If Western joins the CAISO, those costs would be shifted to Western. By forming its own control area, Western will prevent the shifting of CAISO costs to Western's customers. The $80 million to $100 million that the CAISO cites as cost shifting are their costs that will remain with the CAISO's participants. Thus, there will be no cost shifting with the formation of an FCA.

Further, the CAISO's costs have significantly increased since its formation. NCPA members do not want to participate in an organization whose costs are uncontrolled and which does not have effective customer input into its operational decisions.

4) Inconsistency of Western's proposal with existing Federal policy and proposed direction

The CAISO's argues that forming the control area would cause further fragmentation and pancaking of the transmission grid. The fact is that Western's transmission has always been separate from the CAISO, so how can the formation of an FCA cause "further" fragmentation? What the CAISO really wants is Western's low cost transmission system. They want to force Western to join them so that Western's low cost transmission system can be melded in with their higher transmission costs; thus, their transmission rates could be reduced. Then, they would charge the CAISO rate to the customers directly connected to Western's system, which is much higher than Western's rate, for transmission service.

Their stated concern about transmission planning with another control area is puzzling. Western is the only entity that has built any transmission of significance in California in the last 15 years. Because of the lack of transmission planning in California, the CAISO supported Western in the construction of a Path 15 transmission line to relieve system congestion.

The formation of a control area has no impact on the potential formation of regional transmission organizations (RTO), as either one or several control areas can be included in the RTO. The formation of a control area would, however, enable Western to continue to deliver power to preference and project use customers in accordance with Reclamation Law, which in some cases the CAISO tariffs are not conformed to meet. Also, Western's formation of a control area would not have any impact on the SMD issue they raise.

NCPA's view of the CAISO comments is that the only issues that may arise regarding the formation of an FCA are the ones that the CAISO creates. NCPA supports Western in its pursuit of forming a control area or merging with another control area so that choice remains within the NCPA members and the energy market. If dynamic scheduling cannot be established in time for FCA operation starting on January 1, 2005 for those entities who are not directly connected to the federal transmission system, NCPA is willing to consider the incorporation of those loads in its metered subsystem until the dynamic scheduling procedures are established.

Thank you for the opportunity to provide comments.

Sincerely,

GEORGE FRASER
General Manager
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GF:dd

Cc: Kirk Rodgers, USBR
NCPA Utility Directors
NCPA Assistant General Managers